

RSPN Mission Statement

A prosperous Pakistan where people - especially the poor and women - are provided with equal livelihood opportunities and are not socially and economically excluded.



Rural Support Programmes Network (RSPN)

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Report on the First National Workshop on “Alternative Financial Intermediation for the Poor”

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Rural Support Programmes Network



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RSPs in Pakistan-102/126 districts and 2/13 FATA Agencies

The Rural Support Programmes Network (RSPN) is a platform for ten Rural Support Programmes (RSPs) of Pakistan. It undertakes policy advocacy, strategic guidance, capacity building and sharing of best practices between the RSPs and other stakeholders. RSPN was registered in 2000 under Pakistan's Companies Ordinance (1984) as a non-profit company.

RSPN's role in promoting pro-poor development via the core RSP approach of social mobilisation, is widely recognised by the Government, donors, the private sector, NGOs and other partners. RSPN is the largest non-government, rural development network in Pakistan, with the RSPs being present in 102 of the country's 126 districts and 2 FATA agencies. The RSPs have an outreach extending to 2.5 million rural households of Pakistan. RSPN is provided core support from the Department for International Development (DFID) of the Government of the United Kingdom.

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Introduction

Microfinance refers to the provision of financial services to poor households who are not able to gain access to formal financial institutions. Microfinance is viewed as an important tool for poverty reduction. The Government of Pakistan has been facilitating the growth of the microfinance industry and as a result of this, the number of microfinance service providers and clients have increased rapidly, particularly over the past five years. Microfinance product portfolio generally focuses on microcredit; however over the past few years other products have been developed and are now available to clients, such as saving and micro insurance products.

While microfinance services have diversified and the numbers of clients have increased, there is growing evidence that Micro Finance Institutions (MFIs) are only reaching the relatively better off members of poor communities; that too in the mainstream parts of the country. Remote and marginal areas have much less access to these services. The poorest segments of the community, particularly women, are outside the existing microfinance network. In large parts of the country, there are cultural barriers that do not allow potential clients to benefit from such products, i.e. people are adverse to interest-based microfinance products. Poorest households, including their women members, do have a need for microfinance services but the current microfinance framework does not meet their needs. Therefore, there is a need for alternative microfinance intermediation for the poor.

Alternative Financial Intermediation for the Poor

Over the past few years, several organisations in the country have actively begun to provide alternative financial intermediation for the poor. These alternative intermediations include the development of Shariah-compliant microfinance products, Community Organisations (COs) devising self-directed and autonomous means of using their own savings and initiation of community managed Community Investment Funds (CIFs). These

alternative approaches seek to broaden the microfinance landscape in the country and to make it more inclusive and client-driven and hence several 'best practices' have emerged.

It is with this background that the Rural Support Programmes Network (RSPN) decided to organise a one-day workshop on "Alternative Financial Intermediation for the Poor". The workshop took place in Islamabad and had participants from both primary and secondary stakeholders in Government, the Rural Support Programmes (RSPs), MFIs, Commercial Banks and Research Organisations. RSPN also invited community activists who were practicing alternative financial approaches and products. Over 85 representatives from various organisations attended; organisations such as the Government of Pakistan, the World Bank, the Asian Development Bank, Kawish, Pakistan Microfinance Network and Akhuwat, to name a few.

The basic objective of the first national workshop was to discuss "Alternative Models of Financial Intermediation for the Poor" in the country, particularly with a view to scaling up successful approaches to meet the potential needs of poorest households and women in the mainstream and other areas of the country. The structure of the workshop was in the form of presentations from practitioners of alternative financial models followed by a question and answer session and discussion.

In her opening address to the workshop, Ms. Shandana Khan, Chief Executive Officer RSPN welcomed the participants and said that though there had been discussions and debates around the workshop theme by different stakeholders in various forms, this was the first national level effort to bring them all together. By doing so, it would enable them to share their experiences, to learn from each other and to scale up their programmes.



Ms. Shandana Khan, CEO RSPN

Akhuwat

Dr. Amjad Saqib, Executive Director Akhuwat made a detailed presentation on the philosophy and practices of the organisation. Akhuwat was established in 2001 and its chief aim is to provide interest-free loans to underprivileged people in the urban areas of Pakistan. By doing so, Akhuwat hopes to enable these individuals to stand on their own feet by helping them to start earning a livelihood for themselves.



Dr. Saqib, Akhuwat

The source of these interest-free loans is largely from the charitable contributions of private philanthropists, the civil society and to some extent from international donors. The notion of using charity for interest-free loans comes from the

¹Please see pg. 12 for Akhuwat's presentation

concept of *Mwakhaat* or brotherhood. This brotherhood comes in the form of a *Qarz-e-Hasna* which is essentially a loan which has no interest and is provided to a needy individual.

Akhuwat provides these interest-free loans without any service charges. The methodology used to disburse these loans is by using mosques and churches in local communities. Programme introductions are made there in order to let the local community know of Akhuwat and of its products and procedures. In terms of applying for a loan, an individual only has to fill in an application form with Akhuwat staff. A business plan is also prepared (with the involvement of the applicant's entire family). Having done this, the application along with the business plan is sent to the branch office, where the Branch Manager carries out a further technical appraisal. The final approval is given by a loan approval committee which is made up of a unit, branch and area managers. The actual disbursement takes place in the mosques and churches where such events take place two to three times a month where over 100 loans are given out. Along with disbursing loans, Akhuwat also takes the opportunity to provide awareness on various topics such as the importance of girls' education, ethical values in business, traffic laws, etc.

Akhuwat's progress and achievements have been remarkable. It has a Qarz-e-Hasna fund of Rs. 120 million which has been generated through local philanthropy. Through this fund, it has provided 43,000 loans across 21 branches in 15 cities. As far as the recovery rate, Akhuwat has a 99.5% recovery rate.

During the workshop, Dr. Saqib also introduced a new innovation which was taking place in Akhuwat; namely the membership donation programme. He explained that in the programme, each member keeps a donation box in which the member donates Rs. 1 daily. On average Rs. 1 is also donated by someone else. The monthly income from each donation box is Rs. 60 (annually Rs. 720). Akhuwat estimates that because of its 20,000 borrowers, it would generate an annual fund of Rs. 14,400,000 (20,000 borrowers with 20,000 donation boxes with an income of Rs. 720 each annually).



Participants from Sindh

Dr. Saqib concluded by saying that the Akhuwat model was becoming a sustainable one by converting its own borrowers into donors. He also said that because of this, the Akhuwat model was being widely replicated by other organisations.

Following on from Akhuwat's presentation, two organisations, Kawish and Mera Maan, presented their programmes which were replications of the Akhuwat model. Both organisations briefed the participants about

how they had adapted and used the Akhuwat model in their own organisations and for their clients.

Kawish Welfare Trust

Mr. Ammar Ahmad Tarin of Kawish Welfare Trust explained the history of the organisation and its transition to the Akhuwat model. Kawish Welfare Trust was set up in 2003 as a social welfare organisation. It started off by providing free education and medical facilities for the poorest. It has an operational area which covers 25 villages in Southern Punjab and has expanded into Ziarat (helping those affected by the earthquake) and into Mardan (working with IDPs).



Mr. Tarin, Kawish Welfare Trust

In 2008, Kawish Welfare Trust started its microfinance programme in Bahawalnagar, in collaboration with Akhuwat. The principals of Kawish's microfinance programme are:

- Interest-free loans
- Small and easily repayable repayment instalments
- Loans are provided in kind; specifically motorbikes/bicycles and sewing machines

The purpose of providing these loans in kind (and that also specifically transportation and sewing machines) is to improve the income and standard of living of the poorest by providing them with essential assets. Regarding the provision of motorcycles and bicycles, Kawish feels that by removing the transportation barriers of the poorest, it encourages poor families to ensure that their children attend school.

In terms of methodology, Kawish Welfare Trust provides these in-kind loans to the poorest of families on a merit-basis. It also ensures that potential loan candidates are those families that can use the product for value-addition in their profession. Additionally, potential candidates are also vetted as to whether they will be able to comfortably pay back the repayments as to avoid any cases of debt burden on the families. Each potential loan applicant is also meant to have a guarantor who vouches for their ability to repay.

So far, Kawish Welfare Trust has provided 50 sewing machines, 252 bicycles and five motorcycles to deserving women and men. These men and women have generally been poor parents of Iqra Schools' students, their teachers and poor skilled entrepreneurs.

Kawish Welfare Trust has had a very rewarding experience in adopting the Akhuwat model which can be seen by the fact that they have been receiving requests for loans from over 300 villages in and around the area. In addition to this, what is heartening to see is that Kawish Welfare Trust has been receiving many requests from individuals to become an Iqra School teacher. The reason for this is put down to the fact that the role of the teacher in the village has been elevated even higher and is seen as an "agent for change". As a result of this

² Please see pg. 14 for Kawish Welfare Trust's presentation

positive response, Kawish Welfare Trust plans on increasing their coverage and to introduce "Family Enterprise Loans" which will establish a business that would benefit the entire family.

Mera Maan

Another replication of the Akhuwat model has been implemented by Mera Maan, an organisation which has been formed with the help of Empowerment *thru* Creative Integration (ECI) and the Asia Foundation. Mera Maan works in Chitral and in three districts of the Hazara Region; namely Districts Haripur, Abbottabad and Mansehra.

Mera Maan works specifically with women who have entrepreneurial skills but are unable to market their products. The organisation encourages these women to form their own Production Units (PUs) which are comprised of around 20 women each. Within these PUs, the women are asked to assess the gaps in their income-generation activities and based on the assessment, Mera Maan provides them with support such as technical trainings, business trainings, etc. The PUs are also asked to develop an action plan for how they will overcome their barriers. In addition to trainings, an important gap which was repeatedly identified was the lack of capital. In cases where capital could be accessed, it was deemed counter-productive; capital from organisations such as banks and MFIs. This was because of high interest rates, being against Shariah law, long bureaucratic processes and rude behaviour of loan officers.

Therefore to bridge this gap, Mera Maan started to provide loans to the women in the PUs, based on the Akhuwat model of loans being interest-free, Shariah-compliant and easy to process. In the case of Mera Maan, because it does not see credit as its core function but rather as a support mechanism for skilled women, it has provided loans only where they are truly required; rather than pushing credit in order to sustain the organisation itself.

As a result, Mera Maan has provided Rs. 300,000 in the form of 29 loans to the women of various PUs. The utilisation of these loans has been to purchase raw material, machinery, tools and equipment. As for their impact on the women and their businesses, without these loans their businesses would have carried on. However because of the loans, the profit-margins of the businesses have been greatly increased.

A question and answer session followed their presentations with the presenters not only answering participants' queries but also providing them with suggestions from their experiences. Some of the questions asked were:

Does Kawish Welfare Trust obtain both cost and profit on the repayment of their in-kind loans or does it just



Presenter from Mera Maan

³ Please see pg. 17 for Mera Maan's presentation

obtain the cost of the loan in their repayments?

Kawish Welfare Trust includes a Rs. 200 processing fee which it takes upfront when it provides its clients with in-kind loans. The need for the Rs. 200 fee is to cover the operational costs required for providing the service.

Why does Akhuwat work in Punjab only?

Akhuwat works in both Sindh and NWFP through other organisations carrying out the Akhuwat model; as can be seen in the case of Kawish Welfare Trust and Mera Maan. However the reason for Akhuwat being spread greatly across Punjab is because Akhuwat itself is based in Punjab. However, as resources are mobilised, Akhuwat will move to Sindh and NWFP.



Questions being asked at the Workshop

Does Mera Maan ask for a fixed amount of savings from the women in PUs?

Mera Maan does not have a fixed amount which each woman has to save; rather it depends on the individual woman and her capacity to save. Naturally each woman will have a different level of skill and capacity, including differing amounts of profit-margins enabling her to save different amounts of money.

What was the reaction of religious leaders and community members when Akhuwat started to conduct its meetings in mosques and churches?

In the beginning there was resistance to Akhuwat using these religious venues where the stated reaction would be that these are houses of God and people can only pray here. Akhuwat staff then had to explain to them that traditionally mosques were used not only as places where prayers could be offered but that in the Prophet's (PBUH) time, mosques were also a place of governance where courts would be held and matters of the community would be discussed. Having overcome this successfully, the issue of allowing women into mosques also came up. Akhuwat staff then again had to convince the community that in the history of Islam, women have been allowed to enter mosques and to offer their prayers. Another issue which came up against Akhuwat staff was that the religious leaders would say that Christians were not allowed to enter mosques as it would pollute their mosques. Having to deal with such basic issues in this day and age was a challenge for Akhuwat. The religious leaders were able to be persuaded because they were told that in the Prophet's (PBUH) time, he had allowed Christians to enter mosques and to offer their prayers there.

These religious leaders were convinced only because they were quoted examples from Islamic history and persuaded that the doors of mosques should be kept open for everyone, no matter what their religion and that "if people are not allowed inside mosques, then how do you expect to enter their hearts?"

Eventually Akhuwat was able to work with religious leaders to allow local mosques to be opened up to a greater number of people which eventually brought the local community closer and at the same time avoided the negative use of mosques, such as for terrorism.

Next a short video was shown to the participants of the address given by Mr. Shoaib Sultan Khan, Chairman RSPN to the Annual Session of United Nations (UN) Commission on Sustainable Development.

Punjab Rural Support Programme

The next innovative product was presented by Mr. Niaz Hussain from the Punjab Rural Support Programme's (PRSP) Sahiwal region and two community activists. The project entitled the "Internal Lending Pilot" is a programme for utilising Community Organisation's (COs) savings in an effective and efficient manner for productive purposes. The basic concept of the programme arose from the fact that many a times, the savings of COs are left un-utilised by its members due to the savings being insufficient to meet the needs of all of the CO members. Therefore PRSP developed the concept of the Internal Lending Pilot where participating COs would pool their savings

together for the purpose of providing productive loans to its members. PRSP would then enhance their credit pool by contributing a matching amount to the CO's fund. In practical terms, each CO would have their credit pool doubled thereby enabling them to provide loans to all of its members.



Presentation by PRSP staff and CO Members

The pilot involved 12 COs with a total of 61 borrowers. The total amount of credit which was generated was Rs. 1,110,000 (Rs. 555,000 of members' savings with a Rs. 555,000 contribution being made by PRSP). Targeting of the poorest members was done using the Poverty Scorecard (PSC). Another benefit of the pilot is that it is managed by the COs themselves, thereby increasing their management skills and confidence. The loans provided are also based on flexible terms and conditions. Generally loans have been provided for productive purposes such as for the purchase of livestock, agricultural inputs and for purchasing supplies for small enterprises. In terms of ease, members of women's COs have found the pilot especially helpful because it has

⁴ Please see pg. 19 for PRSP's presentation

become much easier for them to obtain micro-loans. Another benefit for women is that repayments can be made much more simply; right in their own neighbourhood.

National Rural Support Programme

The next presentation was by Mr. Niaz Ali Khan, Programme Officer Islamic Micro Finance, National Rural Support Programme (NRSP) Mardan and activists of LSO Babuzai. They presented their product which was Murabaha Financing. Murabaha is a micro-credit product which is Islamic and specifically suitable for those communities which do not accept the concept of interest or service charges. In Murabaha, individuals who want to purchase a good are sold that particular good by NRSP. NRSP purchases the good from a vendor and then sells it to the borrower on a deferred payment plan which includes repayment in instalments; thus making it easier for the client. All terms and conditions are discussed and agreed with the client before the purchase of the product. The procedure for the Murabaha is that demand for a product is given to NRSP through a resolution from the member's CO. Having received a demand, NRSP's officers carry out a technical appraisal of the client and the product. Terms and conditions being decided upon, an agreement is signed and then given a final approval by the District Office. The purchase of the good is done in the presence of the client and is then sold to the client on a deferred repayment plan. The sale price is already agreed upon which includes a profit margin as well.



Mr. Khan, NRSP

As of April 2009, NRSP's Murabaha programme has been spread to a total of nine Union Councils with a total of 671 clients. The portfolio for the Murabaha programme is Rs. 11.4 million with a 100% recovery rate. Generally, the majority of cases have been for the purchase of enterprise goods such as machinery, raw materials, motor vehicle tyres, cement, etc. Other goods purchased have been agricultural inputs and purchase of livestock.

In terms of the experience of LSO Babuzai which works in the Mardan area, the Murabaha programme has brought about several positive results. Firstly, the LSO has been able to successfully disburse Rs. 535,000 in the form of loans to poor members in a duration of just three months. Secondly, because of the programme, the LSO has found that their membership and coverage of households has increased from 59.8% to 62.9% in the very same three months. In addition to this, LSO Babuzai has realised that the inclusion of the poorest and their involvement has increased greatly.

Regarding the image of the LSO and of NGOs in general in the locality, the LSO has felt a notable difference in the attitude of the people. They feel that the local people are now more acceptable of them as they see that the LSO is carrying out a programme which takes into consideration Islam and its beliefs.

⁵ Please see pg. 21 for NRSP's presentation

⁶ Please see pg. 23 for LSO Babuzai's presentation

Sindh Rural Support Organisation

The next presentation was by Ms. Asma Soomro, Social Organiser Sindh Rural Support Organisation (SRSO) and Ms. Sakina, a beneficiary. Their presentation was on the Community Investment Fund (CIF) programme which was being run in the village of Maso Khan Machi, District Shikarpur, Sindh. SRSO donated a CIF fund to Maso Khan Machi which is managed by organised women who are members of COs. In the case of Maso Khan Machi, the COs in the village have also federated into a Village Development Organisation (VDO). The CIF is intended for only women and in addition is only available for the poorest of women. Regarding the identification of the poorest, the programme uses the PSC exercise to determine the poverty levels of the potential beneficiaries.

A total of Rs. 304,000 has been disbursed through the COs of VDO Maso Khan. This amount has benefited 54 poorest women. On average each beneficiary was given a loan of Rs. 5,000. The majority of loans given were used for the purchase of livestock.



Ms. Asma, SRSO

Sarhad Rural Support Programme

The next presentation was by Mr. Wasiq Ali Khan, Sarhad Rural Support Programme (SRSP) and a community activist, on the Village Banking model of the SRSP. The Village Banking model was ideal for hard to reach locations due to its low running costs. A Village Bank is essentially made up of ten COs (of the same gender) and who are all willing and ready to manage and to meet their own financial needs. Each Village Bank has three professional staff and five volunteer staff members. The volunteer staff members are voted in by the General Body of the Village Bank. The General Body also hires the paid staff of the Village Bank. The General Body is made up of members of the COs who each nominate their representative to sit in the General Body. The management of the Village Bank is then trained by SRSP on various skills such as how to manage and keep records of the Village Bank and its transactions. With the credit being provided by SRSP, the Village Bank provides the money onwards to its borrowers.



Presentation by SRSP staff and Village Bank Representatives

The procedure for getting a loan from the Village Bank is kept as simple as possible. All applications are assessed by the paid staff and put forward to a credit committee. Having narrowed down the applicants, the paid staff then verifies and appraises the applications by making visits to the potential borrowers. After being satisfied

⁷ Please see pg. 27 for VDO Maso Khan's presentation

⁸ Please see pg. 29 for SRSP's presentation

with the borrower and their planned loan utilisation, the loan is disbursed. Generally loans are provided for productive and income-generating activities.

So far, SRSP has 11 Village Banks; eight of which are being run by women exclusively. The total outreach of these Village Banks is to over 2,000 rural households.

After the presentations, a question and answer session was held. Some of the questions which arose from the presentations are mentioned below:

Do PRSP's CO members have the option of deciding on how they will utilise their loans?

PRSP CO members in the Internal Lending Pilot have the option of utilising their loans for any purpose; however generally they are required to use their loans for income-generating activities. The trend has generally been for the purchase of livestock and for agricultural inputs.

Regarding the need for Village Banks, does it really cost SRSP Rs. 44-91 to lend Rs. 100 in NWFP?

In Peshawar, the cost is lower because it is an urban area and distances are not an issue. However in the remoter districts such as Karak, Kohat, Haripur and Abbottabad, etc, the transaction costs which go into providing a credit service are higher because of the great distances. Therefore to avoid this high cost, SRSP set up Village Banks in order to bring costs lower in addition to reducing its risks. This is because the Village Banks are owned and managed by the community members themselves who ensure that they are run effectively. Therefore setting up Village Banks was the best option as it avoided the need for SRSP to move out of far-flung areas.



A participant in the Question and Answer session

How does NRSP carry out their procurement procedures efficiently while ensuring that the client is happy with their product?

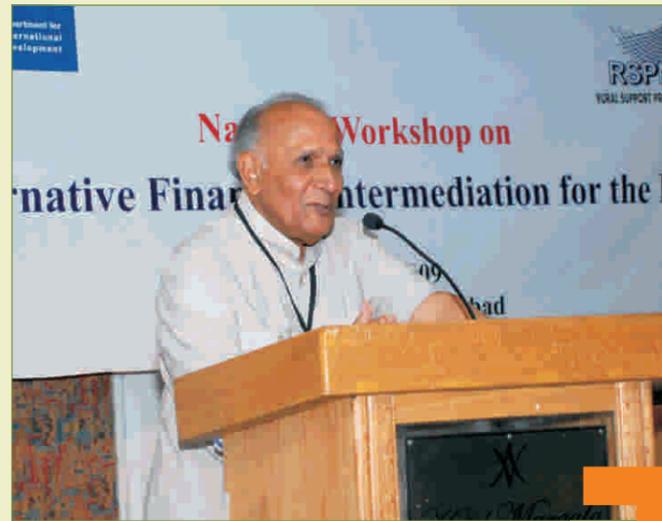
Having conducted the social and technical appraisals, the details of the required product are found out as in what kind of product the client requires and what the costs are. Having approved the client, the client along with the procurement officer goes to the market to purchase the product together.

Conclusion: Chairman RSPN's Comments

After the last presentation, Mr. Shoaib Sultan Khan concluded the workshop by saying that he had learnt about a

lot of new and alternative methods of providing capital to the poorest. He reiterated the need for alternative microfinance products for the poorest. He said that Pakistan has over 18 million households in 5,375 rural union councils and that around 50 to 60 percent of the rural people were poor. They require the support of development institutions to provide them with basic services; one of them being the provision of capital. He said that traditional microfinance operations would not serve all of them. Therefore, different strategies and models were required to reach them.

He appreciated each model especially the Islamic models developed by Akhuwat and NRSP Mardan. He further said that the real challenge was now to scale up the coverage so that a maximum number of people should be reached quickly. He said that his 32 years of experience of working with the communities had taught him that successful models need two things; one replication of activists and second replication of a support organisation to sustain the operations. He added that to make the operations sustainable, one required Community Organisations and their social capital. He concluded by saying that he hoped that the models which had been presented today would be replicated around the country and that one day Pakistan would be rid of one of its biggest problems; poverty.



Mr. Shoaib Sultan Khan, Chairman RSPN

The workshop ended with Mr. Muhammad Ali Azizi, Specialist Social Mobilisation RSPN thanking everyone for attending and participating in the workshop. He said that the workshop was a starting point and that each organisation would hopefully take some of the ideas presented today to learn from them and to come up with other innovative means of providing financial services, specifically for the poorest.

Presentations

Alternative Financial Intermediation for the Poor

16.6.2009

Dr. Muhammad Amjad Saqib

MICROFINANCE- ISSUES

- High Cost
- Interest
- Group lending
 - Confidentiality
 - Group Exclusion
 - Self Exclusion
 - Fees and Commission by group leaders
- Focus on women – Is it empowerment?
- Reliance on international donors
- Pursuing international agenda – Public Image
- Expansion vs. Replication
- Sustainability - for whom? Organization vs. client
- Big city Bias – Poor Towns are neglected
- Mission drift – Business and Industry. It is no more a domain of NGOs
- Microfinance is more than Finance

STRUCTURE

- Legal Entity: Registered under Societies Registration Act 1860
- Member of Pakistan Microfinance Network (PMN)
- Registration with Pakistan Center for Philanthropy (PCP)
- Board of Directors
- Executive Director
- Executive Committee
- BOD's Internal Audit Team
- External Audit
- Life Members/General Body
- Head Office – Control, supervision, coordination

FEATURES & INNOVATIONS

- Credit Pool – Qarz-e-Hasna Fund
- Local Philanthropy – Rs. 120 million
- Interest free – No cost of capital, no service charges
- Individual based lending
- Volunteerism and necessary compensation
- Capacity development through borrowers
- Use of Mosque and Church
- Family loans instead of individual loans
- Membership Donation Programme

PRODUCTS

- Enterprise loans
- Social need loans
- Housing loans
- Emergency loans
- Liberation loans

AKHUWAT CITIES

- | | |
|---------------|---------------------|
| • Lahore | • Gujrat |
| • Rawal Pindi | • Krore Pucca |
| • Faisal Abad | • Chiniot |
| • Lodhran | • Karachi (Sindh) |
| • Dunya Pur | • Khair Pur (Sindh) |
| • Jahanian | • Multan |
| • Dijkot | • Bahawalnaqar |
| • Samundari | • Sharaq Pur |

PROGRESS & ACHIEVEMENTS

June 10, 2009

- Total Loans: 43,000
- Amount Disbursed: Rs. 480 million
- Branches: 21
- Cities: 15
- Active Loans: 15,000
- Loans used by Females: 42%
- Recovery percentage: 99.5%
- Operational cost: 8%

PHILANTHROPY - DONATION

Year	Donations
2001-2	Rs. 1.5 million
2002-3	Rs. 1.8 million
2003-4	Rs. 7.1 million
2004-5	Rs. 10.9 million
2005-6	Rs. 20.3 million
2006-7	Rs. 17.7 million
2007-8	Rs. 23.2 million
2008-09	Rs. 36.0 million
Total Credit Pool	Rs. 125.5 million

PROCESS

ACTIVITY

- Dialogue
- Establishment of an office in mosque
- Programme Introduction
- Receive Applications
- Social Screening
- Economic Appraisal
- Site Visit
- Guarantor's interview
- Finalization of documents/case
- Approval of case by loan committee
- Cheque preparation
- Disbursement of cheque/social guidance
- Fortnightly visits / monitoring
- Recovery Deposit/social guidance
- Subsequent Visit/monitoring
- Second Loan

LOCATION

- Mosque/Market
- Mosque
- Mosques/ Market
- Office / Mosques
- Place of residence
- Market / Mosques
- House/Market
- Mosque/Place of Residence
- Mosque/Office
- Mosque/ Office
- Office
- Mosque / Church
- Business place
- Mosque / Follow-up
- Market
- Office / Record

NEW INITIATIVE MEMBERSHIP DONATION PROGRAMME

- Every Borrower (Member) keeps a donation box.
- Donates Rs. 1 on daily basis
- On an average Rs. 1 is donated by someone else.
- Total monthly donation Rs. 60 (Annual Rs. 720)
- Potential donation boxes: 20,000 Borrowers and 20,000 guarantors = 40,000
- Minimum donation boxes: 20,000
- Annual donation: Boxes 20,000 x Rs. 720: Rs. 14,400,000

WAY FORWARD

- Borrowers are becoming donors – turning into a cooperative movement
- Self help – Self reliance
- Friends of Akhuwat – USA, UK, Canada, ME
- Akhuwat on line (www.akhuwatonline.org)
- Akhuwat Replications
- Akhuwat Microfinance Bank

CONCLUSION

Besides usual benefits of Microfinance

- Spirit of sacrifice – Brotherhood
- Helping people through Qarz-e-Hasna
- Converting borrowers into donors

Kawish Welfare Trust ®

Kawish Welfare Trust ®

Introduction:

Kawish Welfare Trust® is a social welfare org. which was set up in June 2003 with the aim of providing free primary level education, medical facilities for the poor and needy & Micro Finance Program in the remote areas of Bahawalnagar. Soon after its inception, Kawish has expanded its area of operation in Kaghan, Ziarat & Mardan (IDPs) to rescue, relief and rehabilitate the effectives of respective calamity.

Kawish Model for Rural areas

- Operational area: 25 villages in South Punjab
- Start of intervention through education. June, 2003
- Need emerged for holistic package.
- Teachers as activists.
- Health: April 2004
- Micro Finance: June 2008
- 1000 Students and their parents as potential recipients of microfinance in a 40 km radius area.
- Future: Training and capacity building

Micro Finance Project

- Micro Finance Project (Interest Free) has been launched by the Joint Venture of KAWISH and AKHUWAT to facilitate the poor villagers in the remote areas of Bahawalnagar.
- Interest Free & Sharia'h Compliant
- Small Scale pay back Installments

Akhuwat Micro Finance for Rural Areas:

PURPOSE:

- To increase income & enhance the living standards of poor villagers.
- Facilitating mobility & efficiency through purchase of bicycles.
- To motivate the parents living at a distance to send their children to schools.
- To learn the importance of saving.

Selection Criteria:

- Poor / Deserving Person
- On Merit
- Can pay installments
- Use the asset for value addition in his profession.
- Backed by a guarantor

Usage of Bi-Cycles:

• Employment related	15%
• Teachers	20%
• Students	15%
• Agriculture related	30%
• Entrepreneurs	<u>20%</u>
Total	100%

Usage of Sewing Machines

• Widows	10%
• Teachers (wives)	10%
• Students (mothers)	35%
• Orphans (girls)	15%
• Tailors Females	20%
• Tailors Male	<u>10%</u>
Total	100%

Usage of Motor Cycles

- 100 % Motor cycles are provided to the KAWISH staff at site and teachers to add value to their life and equipping with their own conveyance to reach schools in time.

Total Beneficiaries Since June 2008:

S.No	Items	Quantity	Status
1	Motor Cycles	5	Provided
2	Bi-Cycles	252	Provided
3	Sewing Machines	50	Provided

Financial Analysis:

- Start up Investment: Rs.865,000
- **Current value of Assets in circulation:**

• Motor Cycles	05	Rs. 300,000
• Bi-Cycles	252	Rs. 1,260,000
• Sew. Machines	50	Rs. 150,000
Total		Rs.1,710,000
- Start up investment of Rs. 865,000 is a revolving fund which has resulted in purchase of assets worth Rs. 1.7 million

Success Story:



- I am a widow and I have 5 kids. I got a sewing machine on Rs. 200 per month installment. I am a good tailor. I provide stitching services in the locality and earning for my kids. Thank you Kawish-Akhuwat.

Success Story:



- I am an old man and work in the fields. I have to walk 04 KM to reach to the fields & water source for irrigation. I got a Bi-Cycles from Kawish-Akhuwat Project. Now, it's very easy for me to reach agri fields. It is also used for my grandson to go to school & market.

Success Indicators of Program:

- Our awaiting list for next distribution has reached to 300 applicants an estimated cost impact of Rs.1.5 million.
- Receiving requests from over 300 villages located in far flung areas such as Fort Abbas, Minchan Abad and Haroon Abad & even approx. 100 Km from our site office.
- 100 % on time return rate.
- Minimal operational expenses.
- Frequent Requests received for Iqra School's Teacher post as his vital / respectable role of "Agent for Change".

Future Plans:

- Creation of additional clusters in BNG district
- Replication of **Kawish Akhuwat** model.
- Addition of **Family Enterprise Loans** in these villages. These loans shall be given for establishing a new business or expanding an existing one.
- The **Family Enterprise Loans** shall be restricted to Rs. 8000- 10,000 each. The individual has to come up with a viable business plan to become eligible for the **Family Enterprise Loan**.

Thank you for giving us your valuable time and attention.



What & Why Mera Maan?

Women's Livelihood Improvement Programme through Advanced Marketing

Focusing on Visibility, Ability, Mobility and Connectivity

Mera Maan

Production Units Formation Process



Production Units Established (Each Production Unit comprises of 20 women each)

Mera Maan Process

Formation of Business Units of 20 women each
 Naming the units and making producers members
 Making ID cards, visiting cards and sign boards for their PUs
 Identifying capacity gaps
 Developing a plan of action for each unit to include technical training, raw material access, improving quality, better linkages with market, etc

Credit – an Important Gap

Identified many sources, e.g. SRSP, Khushhali Bank, BC or Bachat Committee

Issues – high mark-up, interest unislamic, rude and harsh behavior of loan officers, bureaucratic process, time lag between application and approval

Akhuwat - Micro Credit



Based on TRUST – of Akhuwat with ECI, and ECI with community

Loan – interest Free

700 processing fee, Easy disbursements - all requests well known to ECI
 Loan taken only when NEEDED

Akhuwat - Micro Credit

For ECI
 Credit not a primary purpose – rather a support function

Over 7 months, progress as follows:

Loan disbursed = Rs. 300,000

Total disbursements = 29

Purpose = purchase of raw material, machinery, Tools equipments.

How has this type of Credit made a DIFFERENCE?

Timely?

Opportunity to consult?

Need based - ECI does not sustain its business through earnings from income, so no need to persuade someone to take a credit

What would happen if no credit?

- Businesses could have continued, but profit margins much less

Examples

- Sultan Production Unit purchased chick raw material
- Umeed Production Unit purchased Khadder from Kamalia and embroidery raw material
- Roshni Production Unit purchased raw material for wooden frames
- Rehnoma Production Unit purchased packing machine

Ideas for the Future

How to do it CHEAPER, BETTER & FASTER?

- Give a credit line to the Business Units?
 - Purchase raw material in bulk and provide credit in kind
- Merge the concept of BC and savings



**Productive use of Community Saving
Internal Lending Pilot (ILP)
PRSP Sahiwal Region
June 16, 2009**

**Community Saving utilization for Productive Purpose
(Internal Lending Pilot - ILP)**

- Basic Idea**
- Sharing of benefits among the savers**
- Capacity building**
- Terms of Partnership (step by step approach)**
- Identification of target beneficiaries**
- Disbursement, utilization & recovery**
- Roles & Responsibilities**

Participating COs in the ILP

Total COs	12
No. of borrowers	61
Amount of credit (Rs)	1,110,000
CO members own saving (Rs)	555,000
PRSP contribution (Rs)	555,000

Participating COs in the ILP

1. Male COs	
No. of COs	6
No. of borrowers	46
Amount of credit (Rs)	870,000
CO members own saving (Rs)	435,000
PRSP contribution (Rs)	435,000
2. Female COs	
No. of COs	3
No. of borrowers	15
Amount of credit (Rs)	240,000
CO members own saving (Rs)	120,000
PRSP contribution (Rs)	120,000

CO Al Tauheed

Village: 120/9L
Date of Formation: 30-09-06
Name of President: Mian Mehboob Alam
Name of Manager: Asghar Ali
No. of Members: 20
Savings: Rs. 87,800

Loan Details

Total Loan Amount: Rs. 364,000
Loan Amount for Livestock: Rs. 248,000
Loan Amount for Enterprise: Rs. 116,000
Total No. of Loans: 30
Recovery Rate: 100%

Development Schemes

Project: Lining of Water Channel
Total Cost: Rs. 567,000
CO's Share: Rs. 114,000
PRSP's Share: Rs. 453,000
Total Length of the channel: 2,125 Feet
Project Starting Date: 15-02-2008
Project Completion Date: 26-05-2008

Internal Lending Pilot (ILP)

Total Loan Amount: Rs. 140,000
CO's Share: Rs. 70,000
PRSP's Share: Rs. 70,000
No. of Loans Disbursed: 9
Purpose of Loans: Livestock
Duration of Loans: 9 Months

WCO Shaheen

Village: 58/4-R
Date of Formation: 27-03-04
Name of President: Martha Jan
Name of Manager: Janet Pervaiz
No. of Members: 20
Savings: Rs. 51,000

Loan Details

Total Loan Amount: Rs. 542,000
Loan Amount for Livestock: Rs. 530,000
Loan Amount for Enterprise: Rs. 12,000
Total No. of Loans: 45
Recovery Rate: 100%

Internal Lending Pilot (ILP)

Total Loan Amount: Rs. 80,000
CO's Share: Rs. 40,000
PRSP's Share: Rs. 40,000
No. of Loans Disbursed: 5
Purpose of Loans: Livestock
Duration of Loans: 9 Months

Thank You

ISLAMIC MICRO FINANCE PROGRAMME

MURABAHA

NATIONAL RURAL SUPPORT PROGRAMME

NRSP-NWFP Region

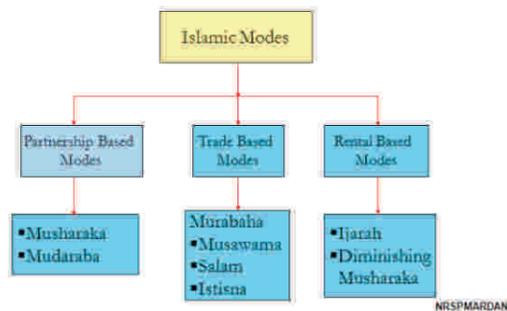
By: Niaz Ali Khan
Program officer NRSP Mardan

Concept of Islamic Financing

- What is Islamic Financing?
"Islamic Financing is interest free Asset Backed Financing governed by the principles of Islamic Shariah"
- Islamic Financing distinguishes from Conventional Financing in four basic principles:
 1. Interest Free Transactions.
 2. Risk Sharing
 3. Asset & Service Backing
 4. Contractual Certainty(Gharar free contracts)

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Different Modes of Islamic Financing



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Ground Work done by NRSP Mardan region for Murabaha program.

- Focused work started on Murabaha mode of Finance in 2007/08.
- Darul Uloom Deoband India and The Bank of Khyber (Islamic Banking Division) Peshawar provided remarkable support in Designing Murabaha mode of Finance.
- Darul Uloom Deoband India, Darul Uloom Haqania Akora Khattak, jamea Benori town Karachi, and Shariah Adviser of The Bank Of Khyber (IBD) have issued Fatwa for practical implementation of Murabaha.

Continue.....

- All necessary formats and program methodology developed for Murabaha were approved from Darul Uloom Deoband India Dar-ul- Uloom Haqania and the Shariah board of the Bank of Khyber (IBD).
- Local Ulema and Molvies in the program area were also briefed and consulted regarding Murabaha.
- A qualified Mufti was hired as a Shraiah adviser for Shariah complaint transaction of Murabaha.
- General workshops and meetings were conducted in the selected union council focusing on Murabaha.
- Focus is given to initiate program in new area and form new Community organizations/ Group for Murabaha.

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- Murabaha activities was initiated in an non intervened union council as a pilot project in Nov 2007.
- For a Shariah complaint Murabaha program sources of funds must be Halal (Interest free).
- The Bank of Khyber (Islamic Banking Division) provided 03 million funds under Mudaraba mode to NRSP Mardan region for the pilot project of Murabaha.
- After successful implementation of Murabaha program in one union council, Then in Nov, 2008 PPAF provided 70 million fund for Murabaha activities under MIOP (Micro finance innovation out reach program) for 12 union councils in two Districts.

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What is MURABAHA

The word "Murabaha" has been derived from the Arabic word "Ribah", which has literary meaning of profit.

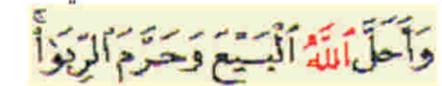
Murabaha is a particular kind of sale where Seller expressly mentions The original purchase price, the cost it has incurred on purchase of Asset (s), and sells it to another person by adding some profit, which is known to Buyer.

$$\text{Purchase value} + \text{Cost} + \text{profit Margin} = \text{Murabaha.}$$

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Shariah Legitimacy of Murabaha:

- Qura'an: "It is no crime for you to seek the bounty of your Lord" [Surah Ale Imran: 198]



"Allah has permitted trading and forbidden Riba "
[Surah Al-Baqarah: 275]

General Mechanics of Murabaha



- The customer approaches NRSP with the request for purchasing goods
- NRSP purchases goods from vendor through procurement officer and receives title of ownership from the vendor
- NRSP makes payment to the vendor either through cross cheque, order cheque
- NRSP sales goods to customer with mutual agreed terms and conditions on deferred payment
- The client receives goods with title of ownership.

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Procedures for Murabaha case

- First stage: The client approaches the Organization through resolution to buy a Halal commodity.
- The client is socially appraised by sales officer 1 and technically by sales officer 2.
- Shariah Adviser appraised the transition from Shariah point of view.
- Quantity, quality, price, place of purchase, profit margin mode and time of repayment is mutually discussed with client before entering in real agreement.
- The client and the organization sign an agreement (Wada Murabaha) in presence of two witness, where the client promise to buy and the institution promise to sell that particular commodity.
- Case is sent to Dist Office for approval, entry in MIS and cheque preparation.

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- Second stage: Procurement officer (mostly) in presence of the client purchases the commodity as mentioned in Wada Murabaha in open market for the institution and take its possession.
- In some cases the organization purchases commodity through an agent by signing an agency agreement with the agent.
- Payment is directly made to the vender in Order cheque /cross cheque.
- The commodities come in possession of the organization and organization is responsible for its profit and lose before sale it to the client .
- Third stage: The client request the organization for purchasing that particular commodity. Organization accepts his/her offer
- Both, client and procurement officer is mutually agreed on, all terms and conditions of the transaction under Murabaha mode which include Profit margin, Mode and time of repayment.

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Fourth stage

- A unilateral agreement called Mamla Murabaha or Murabaha agreement is signed between the client and Procurement officer in presence of two guarantors.
- The commodities is handed over to the clients and goes to his ownership.
- Now the client is responsible for profit and loss of that particular commodity.
- Repayment schedule is handed over to the client.
- Thus a Shariah compliant transaction under Murabaha mode is completed

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Important Rules for Murabaha

- Murabaha finance is not a loan given on interest, it is a sale of goods for cash/deferred price.
- The Subject of sale must be Halal and physically exist at the time of sale.
- The subject of sale must be in the ownership of seller at the time of sale, in the sense that the commodity must be in his risk, though for a short period.
- The subject of sale must be in physical or constructive possession of the seller when he sells it to another person.
- The sale must be instant and absolute.
- The subject of sale must be a property of value and having physical existence.

Constructive possession means a situation where the possessor has not taken the physical delivery of the commodity, yet the commodity has come into his control.

- The subject of sale must be specifically known and identified to the buyer.
- The delivery of the sold commodity to the buyer must be certain and should not depend on a contingency or chance.
- The certainty of price is a necessary condition for the validity of a sale. If the price is uncertain, the sale is void.
- The subject of sale must not in the owner of Client prior to Murabaha agreement.
- Once the price is fixed, it cannot be decreased in case of earlier payment, nor can it be increased in case of default.
- Murabaha agreement must be unconditional.

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Purchasing sectors

- Live stocks
Fattening, Trading, Milk Animal
- Agriculture Inputs,
Seeds, Fertilizers, Pesticides, Plants, agriculture machineries,
- Small Enterprises: Small Business
- Others purchases

Consumer goods, House material, raw material, equipment, carts, Small machineries, tools, Windows and doors, Bricks, Cements, T iron, Motor vehicle etc



Mode of Recovery

Mode of Recovery	Sector	Duration	Profit Mode	Profit rate
Live Stock	Lumps	12 Months	Flat rate	31%
Agri, Inputs	Semi Annual	(06 to 8 Months)	Flat rate	23%
Enterprise	Installments	12 months	Flat rate	20%

- Maximum amount for first purchase Rs. 20,000
- Loan period 12 Months



Monitoring system

Activities	Monitors
Social Appraisal	Sales Officer 1
Technical Appraisal	Sales Officer 2
Shariah Appraisal	Shariah Adviser
Procurement	Procurement officer
Program officer	Visits to field and VBs

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Disbursement as of April 09

Particulars	Detail
Total Union councils	09
Total clients	671
Portfolio	11.04 M
Average Purchase per case	16483
Recovery rate	100%



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Sector wise Disbursement

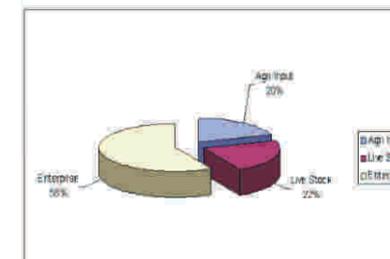
Sectors	cases	Amount
Enterprises	388	6.39 M
Agri, Inputs	135	2.22 M
Live stock	148	2.43 M
Total	671	11.04 M



Enterprise Consumer goods, House material, raw material, equipment, carts, Small machineries, tools, Windows and doors, Bricks, Cements, T iron, Motor vehicle tyres and several other items.

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Sector wise purchases



Enterprise Consumer goods, House material, raw material, equipment, carts, Small machineries, tools, Windows and doors, Bricks, Cements, T iron, Motor vehicle tyres, and several other items.



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Issues we faced initially

- To change mind set of community towards Riba free transactions.
- Initially we worked with agent model, but later on we avoided this model due to several problems.
- Procurement officer was hired and designated for real transactions.
- A sharia adviser was hired to monitor sharia complaint transactions.
- Formats were re revised and simplified from time to time for Shariah compliant transaction.
- Working with existing micro credit community was challenging work.

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- Purchases and verification of live stock transaction were always a challenge for us in Murabaha.
- For sustainability profit rate were revised.
- Processing fee was abolished as a non Shariah element in Murabaha.
- Initially existing MIS did not support transaction for accurate reporting and financial analysis.
- Murabaha activities could be more fruitful if initiated in new area with new staff.
- Only professional, trust worthy, and willing staff should hired for Murabaha.
- In some cases cash payment to vendors is risky particularly in rural area.

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Some positives aspects of the program

- Murabaha is a Shariah compliant agreement for sale of goods on deferred payment.
- Program coverage and the number of clients can be easily increased as the activities is Shariah compliant and accepted by all.
- There is a rich diversity in Murabaha program
- Local Ulama and Molyies can be utilized as activists in the program area.
- We have also accessed those people those were irritated due to Riba element in conventional Credit program.
- Murabaha is assets baked financing and can be utilize mostly in productive purposes, i-e purchasing productive goods.

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Continue.....

- We can purchase all type of products in several sectors as compare with conventional three sector of micro credit i-e Agri input, Live stock, Enterprise.
- No criticism from religious minded community as Murabaha activity is Riba free.
- We can easily improve program coverage and portfolio of clean client as the activities is Shariah compliant.
- Proper and accurate utilization of money in productive items.
- There is a rich diversity in Murabaha program
- Local Ulama and Molyies are playing role of activist in the program area.
- We have accessed the people those were irritated due to Riba factor in Our Credit program.

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Introduction

- LSO Babozai was formed on 2nd August 2007, in the U/C of Babozai with the support of NRSP. It is located 32 Km in the North East of Mardan.
- LSO Babozai consists of three VDOs namely, upper Abakheil, Lower Abakheil and Bharatkheil. Total COs are 57.
- After the formation of the LSO, LSO Babozai conducted the Score Card Survey of households in the U/C and started Murabaha Mode of transaction for the financial support of the poorest in the U/C.
- The LSO started Murabaha Mode of Transaction with the support of NRSP on 15th March 2009 after taking its approval from the local Ulemas and Muftis.

Objectives

- To give financial support to the poor of the U/C.
- To start an Islamic Mode of Financing, which is acceptable to the people of the area, according to their Religious and Cultural values on simple conditions.
- To bring positive change in the life standards of those poor in the U/C, who have no access to commercial banks and other financial institutions.
- To make the poor be able to utilise the available resources, to generate additional capital and resources.

Methodology

- Request of the loanee from CO through resolution for credit to the LSO.
- Social and Technical appraisal by Field Coordinator of the LSO.
- Approval of the LSO for credit.
- Purchase of products by Purchase Committee of the LSO.
- After taking the possession of products by the LSO, they are handed over to the loanee.

Targeting Strategy

- To involve the poor of the U/C directly, by giving them financial support through Murabaha Mode of Transaction.
- The LSO will Support the Extremely Poor of the U/C, in the field of education and health from the income of Murabaha.

Planning for LSOs

- Programme Introductions and Activist workshops will be conducted for score cards, COs and VDOs formation in Mardan, Swabi and Nowshera Districts.
- VDO and LSO formation in Shamozaai.
- 23 U/C have been selected for LSOs formation and steps for its formation had been initiated.
- Supervision and Guidance of Internal Credit system in the LSOs of Babozai and Kot Maina.

Terms and Conditions

- Only CO members can avail the credit from the LSO.
- Each loanee will provide two CO members as a guarantor to the LSO for Credit.
- The ceiling rate of credit is upto Rs. 30,000. The time period is ten months, while profit is 15% on flat rate.

Record Keeping

- As LSO Babozai is operating their Murabaha Mode of Transaction in a limited area and; therefore its credit records are manually recorded due to lack of resources and small scale.
- The credit records consist of Main Credit register, Recovery Installments register and Recovery lump sum register.
- The LSO also allotting separate Sanction number to each credit case.

Monitoring System

- The Executive Body members of the LSO and VDOs are responsible for utilization and recovery of the credit and the LSO has allocated different areas of the U/C to each (E.B) member for credit Operation.

Achievements

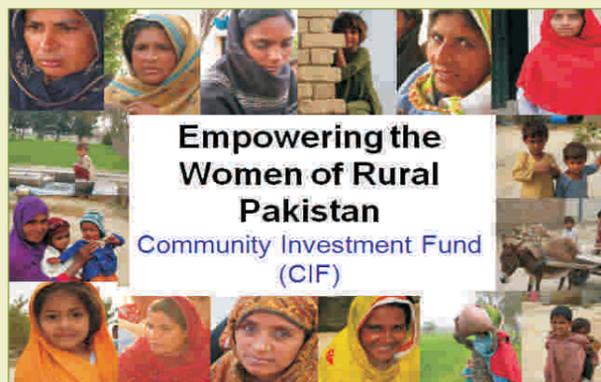
- The LSO has disbursed the total amount of Rs. 0.535 Million to 24 CO members, from which the poor are increasing their income in different sectors.
- Before starting the Murabaha Mode of Transaction, the coverage of the LSO was 59.8% (863 members), while presently the coverage is 62.9% (908 members).

Lesson learnt

- LSO Babozai is giving such kinds of services through Murabaha Mode of transaction, in which,
 - 1- Poor of the U/C are directly involved in the credit system.
 - 2- The Poor will benefit from the income of Murabaha of the LSO.
- Through Murabaha Mode of Transaction of the LSO, the local people of the area took the expression that NGOs are working for the development of the poor following Islamic values and methodology.
- The weakness of LSO Murabaha is that our credit record is manually kept, due to lack of resources and limited credit operation.

Message of LSO Babozai

- LSOs could play a vital role in the Development of poor people if the same set up is started in each U/C, throughout the country.



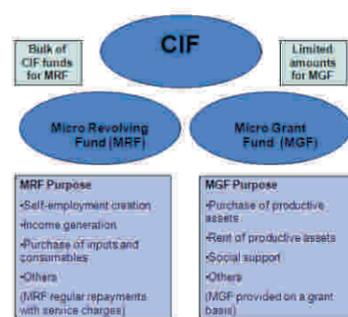
What is CIF?

- CIF is a fund managed by women of organised communities; in WCOs and VDOs
- Way of empowering women in rural areas, by:
 1. Providing the *poorest* of women with micro loans and grants
 2. Allowing the women to manage the fund themselves
- Terms and conditions, such as utilisation, loan duration, repayment plan and service charge are decided jointly by the women in WCOs and VDOs

What is CIF?

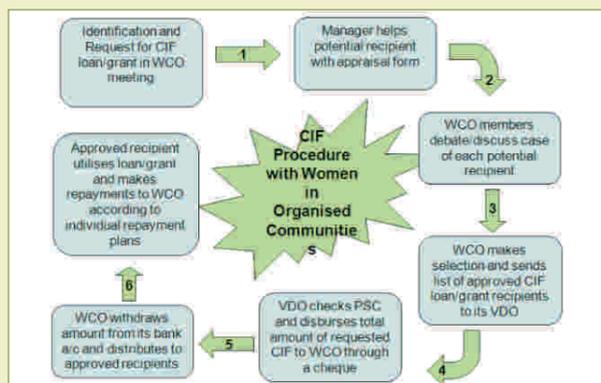
- Only condition of CIF is that the fund should be utilised by *only* the poorest of women, but not depleted.
- Identification of the poorest is done through the Poverty Scorecard and verified by the members of the WCOs and VDO

CIF Components



Masoo Khan Machi District Shikarpur Sindh

Name of Village	Masoo Khan Machi
Name of U.C	Sultan Kot
Total No. of Households in Village	88
Extremely Poor (0 to 11)	4
Chronically Poor (12 to 18)	25
Transitory Poor (19 to 23)	18
Non Poor (24 to 100)	41
No. of WCOs in Village	3
No. of Households in WCO	88
Household Coverage (%)	100%
Total Saving in WCOs	Rs. 23,888



VDO Profile

Name of VDO	Masoo Khan Machi
Name of Village	Masoo Khan Machi
Date of Formation	28-04-2008
Disbursement of CIF	Rs. 304,000
Total CIF Beneficiaries	54
Extremely Poor (0 to 11)	4
Chronically Poor (12 to 18)	32
Transitory Poor (19 to 23)	18
Non Poor (24 to 100)	0

CIF and Women's Empowerment

- CIF can empower women; both economically and socially
- Provides a way of letting *them* find choices for themselves
- Strengthens women's networks
- Builds their social capital
- Makes them realise their own potential

Importance of Financial Services in Rural Areas

- The major contributory factors that encourage a rise in rural poverty is the poor access of rural poor to institutional credit.
- Financial institutions avoid offering MF services in rural part of NWFP because of:
 - Low population density;
 - Poor infrastructure;
 - Population high dependence on farm-income and its sensitivity to natural disasters;
 - Religious uprising against interest based lending; and the growing Talibanization.

Financial Services in Rural Areas: More Costly and Risky

- The inherent impediments to financial services lead to increase in transaction costs and risks for any MFI that aims to serve rural clients in NWFP.
- Resultantly formal financial institutions have largely avoided serving rural areas.
- Lack of access to business financing thus leaves most disadvantaged (women and micro entrepreneurs) dependent on self-finance or very costly, short-term credit from money lenders.



Importance of Women Access to Financial Services in Rural Areas

- Provisions of financial services are believed to address issue of gender disparity more adequately.
- Rural woman is being perceived in a more traditional role in the economy (invisible contribution i.e. underpaid and unpaid) and is assumed unable to be economically productive.
- Increase in woman income on the other hand we believe benefits a household to a greater extent as oppose to a commensurate increase in a man's income.
- Evidently, women who have access to financial services (especially credit & savings) have shown remarkable improvements in their livelihood.
- High sense of responsibility of women have proven themselves credit worthy thus remained more close to the hearts of microfinance practitioners.

SRSP Microfinance Program

Program strives to reduce financial vulnerabilities of the disadvantaged by providing them with the opportunity to have an easy access to institutional microfinance services. Dealing with diverse pattern of livelihood in province, the MF Program employees 3 different model of MF i.e. Urban Retail, Rural Retail and Rural Whole-sale (called Village Banking).

MF Program Outreach



South, Centre & North, Presence in over 100 UCs

South: 1 Rural Branch, 2 VBs

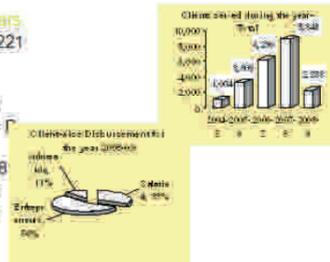
Centre: 2 Rural, 5 Urban, 2 VBs

North: 2 Rural Branches, and 3 VBs

Of the total 11 VBs, 8 are Women-run

Portfolio Indicators

During the past 4 years Disbursement= Rs. 221 million
 Clients= 21,300
 Women= 58 percent
 Average Loan Size= Rs. 10,500
 Repayment Rate= 98
 OLP= Rs. 48 million
 Active Loans= 8,781



Program SWOT- conducted by PPAF

- Microfinance Program SWOT analysis:
1. Good governance as a strength
 2. Lack of resources as a weakness.
 3. Outreach as opportunity and
 4. Growing Talibanization in NWFP as threat

Despite huge demand for micro-loans, SRSP reluctance to expand its outreach, because the organization lacks financial cushion to fall back on in case of un-foreseen risk

Village Banking- making microfinance services accessible to inaccessible

Why Village Banking?

- Challenges: Most of MF programs currently, does not take into account...
1. Rural Outreach:
 - Mostly urban programs, cost effective, focus is sustainability
 2. Poverty Outreach:
 - Extending loans to better off (repayment capacity)
 3. Flexibility:
 - Cookie cutter approach, one size fits all
 4. Credit Plus approach:
 - Only micro-credit with less focus on other financial services
 5. Community Empowerment:
 - Service Delivery, discouraging self-help
 6. Women Empowerment:
 - Services limited to only women practical needs and not strategic (i.e. Decision making)

Village Banking: The alternative financial intermediation

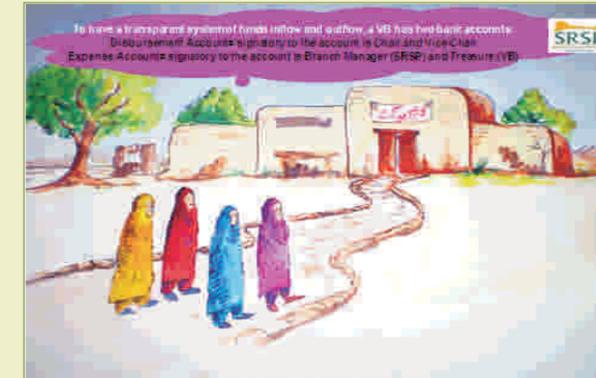
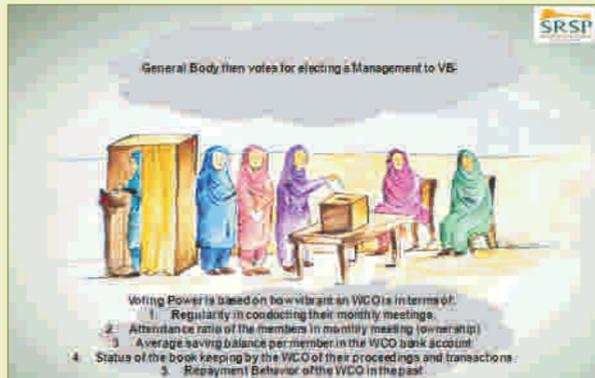
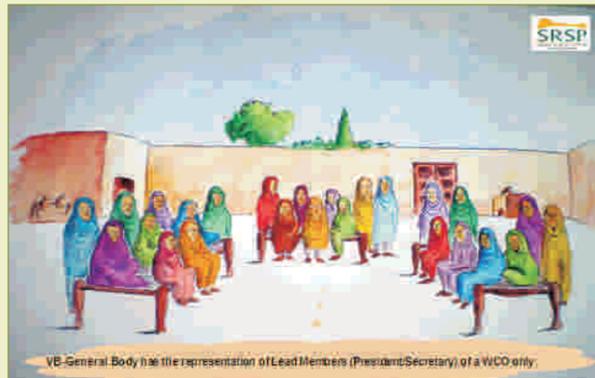
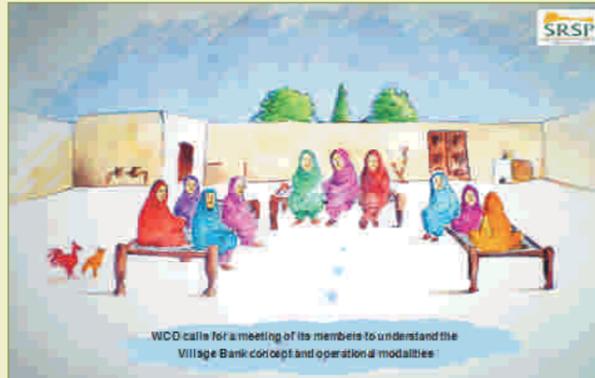
- Objective:
1. Conversion of rural retail into rural whole-sale in order to increase the accessibility of the poor to microfinance
 2. Encourage unity of poor, Build their confidence and Facilitate ownership of a locally-managed system, for self-help
 3. To address the strategic gender needs (decision making) of poor, especially women
 4. Strengthening the Village Organization (3-tier SM strategy)
- Basis of the Model:
 Proven fact, village communities, best managers of their own financial systems if they are provided with technical assistance by support org.
- SRSP Role:
 As a capacity building organization (supporting arm) and NOT as of a service delivery organization.

How to Set up a Village Bank?

- Village Bank, set up with 10 COs of the same gender, willing to run their own microfinance program to address their financing needs.
- VB needs hand holding of a Support Organization for 30-36 months.
- SRSP as a mentor, extend its technical assistance in the following areas:
 1. Leadership Management Skills Training (VB- Chair & Vice-Chair);
 2. Management of Community Organization (General Body);
 3. Client Screening Techniques (Credit Committee);
 4. Basic Activist Training (Social Animator);
 5. Collection of Clients Base Line info (Credit Extension Worker);
 6. VB-Administration and Portfolio Management (Treasurer); and
 7. Book Keeping (Treasurer);

Staffing at a Village Bank?

- A Village Bank in general has three professional staff members i.e.
 1. Social Animator (SA)
 2. Credit Extension Worker (CEW) and
 3. Treasures (TR)
- The staff is supported by 5 volunteers i.e.
 - Chair
 - Vice-Chair and
 - 3 members Credit Committee
- Volunteer staff is elected by the general body of a Village Bank at the time of VB formation and it is the General Body of a Village Bank who appoints the paid staff.



Setting monthly Credit Ceiling

- Loans in bulk to VB is extended through a cross cheque by SRSP.
- VB make on-ward disbursement to individuals via bank cheques.
- To be credit risk averse, monthly credit ceiling of a VB is determined on the basis of a VB performance.

Performance Indicator Points	
Regularity in conducting GB meetings (5 points);	
Attendance of GB meetings in GB meetings (10 points);	
Average savings balance of a member at the OD bank account (10 points);	
Average grading (quality) of the member/M/WCOs (10 points);	
Repayment behavior of the member CG (10 points);	
Repayment behavior of the Village Bank (15 points);	
Status of Book keeping at the Village Bank (10 points);	
Score Monthly Credit Ceiling	
40-49 points (Rs. 100,000/-)	
50-59 points (Rs. 200,000/-)	
60-69 points (Rs. 300,000/-)	
70-79 points (Rs. 400,000/-)	
80-89 points (Rs. 500,000/-)	
90-99 points (Rs. 600,000/-)	

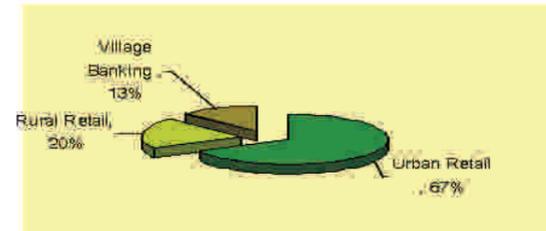


**Village Banking:
Visitors Opinion**

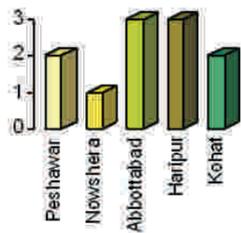


- 1) **Rural Outreach:** can operate in remote or sparsely populated areas; VB operational cost is low (no expensive staff).
- 2) **Poverty Outreach:** accessible to low-income households, women and micro-entrepreneurs (by carrying out a wealth ranking exercise)
- 3) **Flexibility:** are community based where members usually know each other well thus they more flexible and responsive to its clients.
- 4) **Credit plus:** Potential to offer all kind of financial services i.e. savings, insurance, remittance etc. for some VBs Takaful Financing is under consideration
- 5) **Community Empowerment:** proving to be genuine peoples' organization extend themselves beyond simple dispersion and collection of loans to address number of community concerns, that may also include acquisitions of new skills and behavioural change in health, nutrition, literacy, gender and environmental conservations.
- 6) **Women Empowerment:** Since provision of financial services address the issue of gender disparity more adequately therefore addressing the Strategic Gender Needs 5 out of the total 11 Village Banks are being run by women, extending services to over 2,000 rural households.

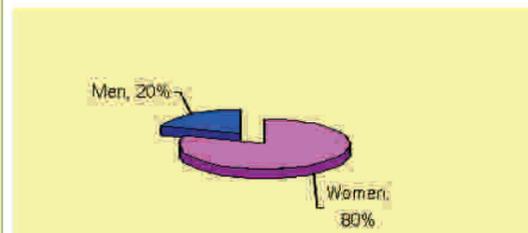
**Village Banking:
Share in Overall Clients**



**Village Banking:
Branches Network**



**Village Banking:
Men/Women Disbursement Ratio**



**Future Outlook:
VB as genuine people
organization**



- beyond the simple dispersion and collection of loans to address any number of community concerns;
 - acquisitions of new skills and
 - behavioral change in health;
 - nutrition;
 - literacy;
 - gender and
 - environmental conservations.

Thank You!